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Reports Predict Dismal Year for California Economy

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California's economy will turn ugly in the year ahead as the housing crunch takes a big bite out of jobs and widens the state budget deficit, two new reports project.

The quarterly UCLA Anderson Forecast predicts the state will barely avoid recession, with non-farm jobs growing just 0.5 percent in 2008, down from 1.3 percent this year. The unemployment rate will rise to 6.1 percent by the second half of next year and remain at that elevated level for most of 2009, according to UCLA.

Meanwhile, a forecast from Chapman University in Orange County concludes that California will plunge into negative territory for at least two quarters in 2008, with jobs growing by only 0.1 percent for the full year.

Both reports cite the direct and indirect effects of tighter credit, falling housing prices and slowing home sales as drags on overall economic activity.

The UCLA forecast says the slowdown will be longer and more severe than it previously projected, in part because the housing slump is destroying more financial jobs than expected. It now sees the loss of approximately 74,000 construction jobs and 25,000 financial jobs during the downturn.

"Real estate is worse than the official numbers suggest, especially on the finance side of things," Anderson Forecast economist Ryan Ratcliff said.

The state's economy will grow next year because it takes weakness in two major sectors to cause a recession and no other area seems likely to turn down sharply enough to do that, Ratcliff said.

In the Bay Area, construction and finance jobs have been evaporating for some time.

As housing sales slowed, "we've had to scale back on staff," said Sherry Mar, manager of Placer Title Co. in Alameda. The office has shrunk to four employees from seven a few years ago, and "the present staff could handle a bit more volume," she said.

One reason Chapman's forecast is gloomier than UCLA's is because it expects a slowdown in commercial real estate to take a big toll on jobs.

"We believe the nonresidential real estate sector is the second shoe that's going to drop," said Esmael Adibi, director of Chapman's Anderson Center for Economic Research.

Both reports stress a yawning state budget deficit as a threat to California's economy. UCLA cites an estimate by the state Legislative Analyst's Office in Sacramento that the budget gap could reach \$8 billion in the next fiscal year. Chapman calculates that the California government could face an operating deficit of \$10.6 billion.

A budget shortfall of that magnitude could force major cutbacks in state and local government spending. As a result, public sector cutbacks could hold back recovery when private employers resume hiring, UCLA warns.

An ugly spell for California's economy

The UCLA Anderson Forecast sees a sharp slowdown in the state's economy, barely avoiding recession.

- Non-farm jobs will grow 0.5 percent in 2008, down from 1.3 percent in 2007.
- The unemployment rate will rise to 6.1 percent in 2008 from the current 5.6 percent.
- California will lose 99,000 construction and finance jobs during the downturn.

Source: UCLA Anderson Forecast